

Current Class: UNCLASSIFIED  
Current Handling: n/a

UNCLASSIFIED

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PTQ7198

EIH

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ACTION WHA-00

INFO	LOG-00	NP-00	AID-00	CEA-01	CIAE-00	CTME-00	DODE-00
	DOEE-00	ITCE-00	DOTE-00	SRPP-00	DS-00	EAP-00	EB-00
	EXME-00	E-00	FAAE-00	UTED-00	VC-00	FRB-00	H-01
	TEDE-00	INR-00	ITC-01	LAB-01	L-00	VCE-00	AC-01
	NSAE-00	NSCE-00	OMB-01	OPIC-01	PA-00	PM-00	PRS-00
	ACE-00	P-00	SP-00	SSO-00	STR-00	TEST-00	TRSE-00
	USIE-00	FMP-00	EPAE-00	PMB-00	DSCC-00	DRL-02	G-00
	NFAT-00	SAS-00	/009W				

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O 142121Z FEB 02  
FM AMEMBASSY CARACAS  
TO SECSTATE WASHDC IMMEDIATE 4784  
INFO USDOC WASHDC IMMEDIATE  
AMEMBASSY BUENOS AIRES  
AMEMBASSY BRASILIA  
AMEMBASSY QUITO  
AMEMBASSY LIMA  
AMEMBASSY BOGOTA

RELEASED IN PART  
B1, 1.4(D), B6

UNCLAS SECTION 01 OF 02 CARACAS 000380

SENSITIVE

E.O. 12958:N/A  
TAGS: EFIN, PGOV, ECON, ELAB, VE  
SUBJECT: CHAVEZ FLOATS THE BOLIVAR  
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1. (U) SUMMARY: IN A FEBRUARY 12 SPEECH TO THE NATION, PRESIDENT CHAVEZ ANNOUNCED A PACKAGE OF ECONOMIC MEASURES THAT INCLUDE A FLOATING EXCHANGE RATE, NEW MEASURES TO RAISE REVENUE, AND A 6.8 PERCENT CUT IN PLANNED 2002 GOV EXPENDITURE. BY CLOSE OF BUSINESS ON WEDNESDAY, FEBRUARY 13, THE BOLIVAR HAD FALLEN FROM 793/USD TO 981. IN LIGHT OF THE RAPID FALL IN FOREIGN RESERVES, CHAVEZ HAD TO ACT, BUT THE DECISION TO FLOAT THE EXCHANGE RATE, RATHER THAN IMPOSE EXCHANGE CONTROLS, SURPRISED ALMOST EVERYONE.

END SUMMARY.

2. (U) IN A SPEECH TO THE NATION AT THE END OF THE FOUR-DAY CARNIVAL WEEKEND, PRESIDENT CHAVEZ SURPRISED VIRTUALLY EVERYONE BY

UNITED STATES DEPARTMENT OF STATE  
CLASSIFIED BY DEPT. OF STATE, L. R. LOHMAN, DAS, A/RPS  
REVIEW AUTHORITY: JOHN L MILLS  
CLASSIFICATION: CONFIDENTIAL REASON: 1.4(D)  
DECLASSIFY AFTER: 13 FEB 2012  
DATE/CASE ID: 30 AUG 2004 200400110

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B1

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ANNOUNCING A PACKAGE OF ECONOMIC MEASURES THAT INCLUDED A FLOATING EXCHANGE RATE. CHAVEZ BLAMED THE 9/11 ATTACK FOR A FALL IN WORLD OIL PRICES AND THE CLOSING OF INTERNATIONAL CAPITAL MARKETS TO EMERGING COUNTRIES. RECOGNIZING THAT THE ASSUMPTIONS BEHIND THE ORIGINAL BUDGET WERE NO LONGER VALID, CHAVEZ ANNOUNCED A NOMINAL CUT IN BUDGET EXPENSES OF 1.850 TRILLION BOLIVARS (6.8 PERCENT). THE CUTS WILL BE ACCOMPANIED BY NEW AND PREVIOUSLY ANNOUNCED MEASURES TO RAISE REVENUES.

3. (SBU) CHAVEZ'S ANNOUNCEMENT, COMING IN THE WAKE OF A CONTINUING FALL IN THE INTERNATIONAL RESERVES OF THE CENTRAL BANK (BCV), REPRESENTS A MAJOR CHANGE IN THE FOREIGN EXCHANGE REGIME. THE CHANGE APPEARS TO BE A MAJOR DEFEAT FOR MINISTER OF PLANNING JORGE GIORDANI, NORMALLY VIEWED AS CHAVEZ'S PRINCIPAL ECONOMIC

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ADVISOR. AS LATE AS SATURDAY MORNING, FEBRUARY 9, GIORDANI APPEARED ON TELEVISION DEFENDING THE OLD POLICY OF USING THE EXCHANGE RATE AS A NOMINAL ANCHOR AGAINST INFLATION. HOWEVER,

[REDACTED] THAT GIORDANI SUPPORTED THE NEW POLICY. [REDACTED] THE DECISION WAS MADE OVER THE WEEKEND AND WAS A VERY DIFFICULT POLITICAL ISSUE FOR CHAVEZ. IN HIS SPEECH CHAVEZ ACKNOWLEDGED DIFFERENCES IN HIS ECONOMIC TEAM OVER THE NEW MEASURES AND EMPHASIZED THE COOPERATION OF THE EXECUTIVE BRANCH AND THE BCV IN DEVELOPING THE NEW POLICY.

B6  
B6

4. (U) CHAVEZ'S SPEECH WAS GENERALLY VIEWED AS CONCILIATORY. HE AVOIDED BLAMING THE "OLIGARCHS" FOR THE RUN ON THE BOLIVAR. CHAVEZ SAID HE WAS WILLING TO "SHEATH HIS SWORD . . . WE MUST PUT BOTH OUR HANDS TO WORK FOR DEVELOPMENT, PEACE, HARMONY, RESPECT FOR DIFFERENCE, AND THE SEARCH FOR SOLUTIONS AND ROADS THAT ARE POSITIVE FOR ALL . . . THIS IS A MESSAGE THAT I SEND TO ALL VENEZUELAN, WHATEVER YOUR IDEOLOGICAL, POLITICAL OR SOCIAL POSITION. I DON'T CARE IF YOU'RE NEUTRAL, AGAINST OR FOR THE REVOLUTIONARY PROCESS . . ." HE THEN WELCOMED CONSTRUCTIVE CRITICISM FROM HIS OPPOSITION.

5. (U) THE NEW POLICY CAME UNDER IMMEDIATE AND REFLEXIVE ATTACK BY CHAVEZ'S OPPOSITION. THE INDEPENDENT TELEVISION CHANNEL VENIVISION APPEARS TO HAVE BEEN THE ONLY STATION THAT SENSED WHAT WAS COMING AND HAD A PANEL OF ECONOMISTS READY TO COMMENT. CRITICS CORRECTLY POINTED OUT THAT THE SUCCESS OF THE POLICY WOULD DEPEND ON A CREDIBLE FISCAL POLICY. THEY WERE QUICK TO QUESTION CHAVEZ'S LIMITED EXPLANATION OF THE NEW REVENUE ESTIMATES.

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DESIGNING THE NEW SYSTEM

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6. (U) CHAVEZ PROVIDED LITTLE INFORMATION ON HOW THE FLOAT WOULD OPERATE. THE GOV CURRENTLY PROVIDES ABOUT 80 PERCENT OF THE COUNTRY'S EXPORT REVENUE, WHICH IT CHANNELS THROUGH THE BCV TO THE FOREIGN EXCHANGE MARKETS. THE BCV, THEREFORE, WILL ALWAYS BE IN THE MARKET, [REDACTED]

[REDACTED] THE BCV WOULD EVENTUALLY MAKE REGULAR ANNOUNCEMENTS ON THE AMOUNT OF MONEY THEY WOULD SELL EACH WEEK. THURSDAY'S NEWSPAPERS REPORT BCV GOVERNOR DOMINGO MAZA EXPLAINING THAT THE BCV IS PLANNING DAILY DOLLAR AUCTIONS OF APPROXIMATELY USD 60 MILLION.

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COMMENT - THE ECONOMICS:  
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7. (SBU) FOR SEVERAL WEEKS WE HAVE BEEN ACTIVELY POLLING LOCAL ECONOMISTS FOR THEIR PREDICTIONS ON THE GOV'S REACTION TO THE RUN ON THE BOLIVAR. NOT ONE PREDICTED A MOVE TO A FLEXIBLE EXCHANGE RATE SYSTEM AND MOST DISMISSED IT AS A VIABLE POLICY. THE CUTS IN SPENDING ARE LESS OF A SURPRISE. MINISTRY OF FINANCE OFFICIALS TOLD US SOME TIME AGO THEY WERE WORKING ON BUDGET CUTS. AN ANNOUNCEMENT WAS NEVER MADE, HOWEVER, PERHAPS BECAUSE CHAVEZ NEEDED CONVINCING. IT WILL TAKE SOME TIME TO DIGEST THE

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	ACE-00	P-00	SP-00	SSO-00	STR-00	TEST-00	TRSE-00
	USIE-00	FMP-00	EPAE-00	PMB-00	DSCC-00	DRL-02	G-00
	NFAT-00	SAS-00	/009W				

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O 142121Z FEB 02  
FM AMEMBASSY CARACAS  
TO SECSTATE WASHDC IMMEDIATE 4785  
INFO USDOC WASHDC IMMEDIATE  
AMEMBASSY BUENOS AIRES  
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AMEMBASSY QUITO

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B1, B6

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AMEMBASSY LIMA  
AMEMBASSY BOGOTA

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IMPLICATIONS OF THE NEW POLICIES, BUT OUR INITIAL REACTION IS POSITIVE. THE DEVALUATION OF THE BOLIVAR SHOULD GIVE A BOOST TO VENEZUELA'S ECONOMICALLY DEPRESSED INDUSTRIAL SECTOR AND TO AN ECONOMY THAT WAS BEEN HEADING INTO A RECESSION. CHAVEZ'S ACTIONS DEMONSTRATE AGAIN THAT, DESPITE HIS RHETORIC, HIS ECONOMIC POLICIES ARE OFTEN PRAGMATIC AND, ON A MACRO LEVEL, USUALLY ALLOW MARKETS TO OPERATE FREELY.

8. (SBU) ALTHOUGH WE SYMPATHIZE WITH SOME INITIAL CRITICISM OF THE NEW BUDGET ESTIMATES, IT WILL TAKE SOME TIME TO CLARIFY THE BUDGET IMPLICATIONS. SOME OF THE IMPACT IS INHERENTLY UNKNOWABLE UNTIL THE EXCHANGE RATE STABILIZES. A DEVALUATION WILL INCREASE THE GOV'S DOMESTIC CURRENCY REVENUES FROM DOLLAR OIL SALES. ONCE THE NEW EXCHANGE RATE STABILIZES, INTEREST RATES ARE LIKELY TO FALL, REDUCING THE DOMESTIC DEBT SERVICE. GIVEN THE EXPERIENCE OF PREVIOUS BUDGETS, IT IS ALSO LIKELY THAT ACTUAL 2002 EXPENDITURES WILL BE LESS THAN THE AMOUNT FORECAST.

9. (SBU) THE IMMEDIATE QUESTION IS HOW THE MARKETS WILL REACT. IN RELATIVELY THIN TRADING THE EXCHANGE BOUNCED BETWEEN 900-1080 BOLIVARS TO THE DOLLAR FEBRUARY 13 BEFORE CLOSING AT 980. (IT WAS 793 ON FRIDAY, FEBRUARY 8.) OUR BANKING CONTACTS REPORTED VARIOUS ESTIMATES OF AN EVENTUAL MARKET FLOOR OF 1000 TO 1500. THE BCV WAS REPORTED TO HAVE SOLD USD 236 MILLION AT THE END OF THE TRADING SESSION TO FORCE THE RATE BELOW 1000. WE EXPECT THAT THE GOV WILL NEED TO ADDRESS QUESTIONS ABOUT THE NEW BUDGET AND THE ROLE OF THE BCV IN THE FOREIGN EXCHANGE MARKET BEFORE THE EXCHANGE RATE STABILIZES.

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<< END OF DOCUMENT >>

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